

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 015424
ORIGIN COME-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 DODE-00 PA-01 PRS-01 SIG-01 MMO-01 L-03 /088 R

DRAFTED BY USDOC/BEWT/USSR/SBOZEK/ASMITH/MAR
APPROVED BY INR/REC LJKENNON
USDOC/BEWT/USSR/HWHEISS
USDOC/BEWT/OEWCA:JMGEORGE
INR/REC/NRLANG
EUR/SOV/JLCOLBERT
INR/REC/MKOHN
INR/RSE/R/IBJAFFE

-----250436Z 030053 /70

R 242105Z JAN 77
FM SECSTATE WASHDC
TO AMEMBASSY MOSCOW
INFO AMEMBASSY LONDON
AMEMBASSY VIENNA
AMEMBASSY BELGRADE
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION EC BRUSSELS
USMISSION USBERLIN
USMISSION NATO

LIMITED OFFICIAL USE STATE 015424

E.O. 11652: N/A

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 015424

TAGS: EEW, EFIN, CEMA, UR, US

SUBJECT: TRANSFERABLE RUBLE IN EAST-WEST TRADE

REFERENCE: (A) MOSCOW 0301, (B) MOSCOW 0639

1. BEGIN SUMMARY. WITH REGARD TO REFS A AND B WE BELIEVE

IBEC PROPOSAL ON EAST-WEST TRADE HOLDS VERY LIMITED SIGNIFICANCE AT BEST FOR WESTERN COUNTRIES IN LIGHT OF PRESENT EXPERIENCE OF CMEA-MEMBER COUNTRIES USING TR'S FOR MULTILATERAL SETTLEMENTS. ON JANUARY 14,1977 AT A COMMERCE SPONSORED FINANCIAL SEMINAR, ABOUT 20 REPRESENTATIVES OF 15 MAJOR U.S. BANKING INSTITUTIONS INVOLVED IN EAST-WEST TRADE SEEMED TO BE IN GENERAL AGREEMENT WITH OUR ANALYSIS THAT THE MOST RECENT IBEC INITIATIVE APPEARS TO BE LITTLE MORE THAN AN OFFER OF A TR CLEARING ACCOUNT. THE DETAILED ANALYSIS, SIMILIAR TO THAT PROVIDED TO THE 20 BANKERS FOLLOWS. END SUMMARY.

2. IBEC PROPOSAL. IBEC ISSUED FOUR MAIN PROVISIONS INTENDED TO FACILITATE TRANSACTIONS WITH NON-MEMBERS OF THE BANK: (1) ANNUAL BALANCING OF TRADE IS NO LONGER OBLIGATORY, ALTHOUGH IT IS ADVISABLE; (2) ANY IMBALANCES WILL BE COVERED IN FULL WITH TR CREDITS ISSUED BY IBEC; (3) TR CREDITS CAN BE ISSUED FOR PERIODS OF UP TO THREE YEARS; (4) THE BORROWER MAY, AT ANY TIME, ELIMINATE HIS TR

OBLIGATIONS BY PAYING CONVERTIBLE CURRENCY. ALL FOUR PROVISIONS, HOWEVER, OPERATE UNDER THE REQUIREMENT THAT TR BALANCES MAY BE USED FOR THE PURCHASE AND SALE OF GOODS ONLY WITH THE AGREEMENT OF ALL THE INTERESTED PARTIES.

3. IBEC PROCEDURES. THE PROVISIONS OF THE IBEC PROPOSAL PRESENTLY ARE APPLICABLE TO TR SETTLEMENTS EFFECTED AMONG CMEA-MEMBER COUNTRIES, BUT THEIR EXPERIENCE DEMONSTRATES LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 STATE 015424

THAT A DISPARITY EXISTS BETWEEN THE THEORETICAL AND PRACTICAL APPLICATION OF THE IBEC PROCEDURE. FOR EXAMPLE, IN THEORY IBEC WILL EXTEND TR CREDITS TO THE U.S.S.R. IN ORDER TO COVER A TRADE DEFICIT WITH ROMANIA. THEN IF IN ITS TRADE WITH HUNGARY THE U.S.S.R. HAS AN EQUIVALENT SURPLUS, THE SOVIET UNION'S TRADE WOULD THEORETICALLY BE BALANCED THROUGH THE IBEC MULTILATERAL SETTLEMENTS MECHANISM.

--IN PRACTICE TR MULTILATERAL SETTLEMENTS AMOUNT TO LESS THAN 2 OF TOTAL CMEA TRADE TURNOVER BECAUSE A CMEA-MEMBER COUNTRY HAVING TR DEPOSITS CANNOT MAKE AN AUTOMATIC CLAIM ON GOODS AND SERVICES IN ANOTHER CMEA-MEMBER COUNTRY. MOST INTRA-CMEA TRADE IS CONDUCTED BILATERALLY ON THE BASIS OF ANNUAL TRADE AGREEMENTS WHICH STIPULATE THE AMOUNT AND TYPE OF GOODS TO BE EXCHANGED. ANY TRANSACTIONS OUTSIDE OF THE ANNUAL TRADE AGREEMENT CAN BE ARRANGED ONLY WITH GREAT DIFFICULTY.

--IT IS ALSO INTERESTING THAT THERE HAS NOT YET, AS FAR AS WE CAN DETERMINE, BEEN ANY USE OF TR'S BY THE TWO NON-CEMA COUNTRIES FINLAND AND YUGOSLAVIA, WHICH HAVE SPECIAL RELATIONSHIPS WITH CEMA AND THE TWO CEMA BANKS. FROM TIME TO TIME THERE HAVE BEEN REPORTS OF THE POSSIBLE AVAILABILITY OF TR'S FOR USE BY FINNISH FIRMS DEALING WITH CEMA COUNTRIES, AND SEVERAL YEARS AGO THE YUGOSLAVS ARE RELIABLY REPORTED TO HAVE TURNED DOWN A CZECHOSLOVAK PROPOSAL FOR PAYMENT OF TR'S TO A YUGOSLAV CONSTRUCTION ENTERPRISE WHICH HAD CONTRACTED TO BUILD A SECTION OF THE NEW TATRA TRUCK COMPLEX. HOWEVER, ALL EVIDENCE AVAILABLE IN WASHINGTON INDICATES THAT BOTH COUNTRIES CONTINUE TO SETTLE ALL THEIR TRADE WITH CEMA COUNTRIES EITHER THROUGH BILATERAL CLEARING OR IN HARD CURRENCY.

--THE IBEC PROPOSAL TO NONMEMBERS SPECIFICALLY NOTES THAT TR SETTLEMENT OPERATIONS MAY BE CARRIED OUT ONLY WHEN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 STATE 015424

AN APPROPRIATE AGREEMENT IS REACHED AMONG FOREIGN TRADE, BANKING, AND OTHER COMPETENT ORGANIZATIONS OF THE INTERESTED COUNTRIES. IT IS DIFFICULT TO ENVISION NON-MEMBER COUNTRIES ENJOYING SIGNIFICANTLY MORE SUCCESS THAN CMEA

MEMBER COUNTRIES IN INCREASING THE USE OF TR'S FOR MULTILATERAL SETTLEMENTS.

--ARRANGEMENTS FOR THE USE OF THE TRANSFERABLE RUBLE (R) BY COUNTRIES WHICH ARE NOT MEMBERS OF CEMA HAVE BEEN PART OF THE CEMA IBEC STATUTES FOR A NUMBER OF YEARS AND HAVE BEEN ROUTINELY MENTIONED BY IBEC OFFICIALS DURING VISITS TO THE BANK BY WESTERN BANKERS AND OFFICIALS. ON ONE OCCASION, FOR EXAMPLE, IN THE FALL OF 1973, IBEC CHAIRMAN K.I. NAZARKIN GAVE A DETAILED EXPLANATION TO A VISITING GROUP OF NORTH CAROLINA BUSINESSMEN AND BANKERS ON HOW THE TR COULD BE USED FOR MULTILATERAL SETTLEMENTS IN TRADE BETWEEN WESTERN AND CEMA COUNTRIES. DESPITE ALL THE VERBIAGE AND ASSURANCES, HOWEVER, WASHINGTON AGENCIES HAVE YET TO FIND ANY INSTANCE WHERE TR'S HAVE - SO FAR - BEEN USED IN ANY EAST-WEST TRADE TRANSACTION.

4. SIGNIFICANCE OF IBEC PROPOSAL. SINCE THIS IS NOT THE FIRST TIME IBEC HAS OPENED ITS FACILITIES TO NONMEMBERS, THE NEW PROPOSAL WILL PROBABLY HAVE LITTLE SIGNIFICANCE FOR WESTERN COUNTRIES AND ONLY LIMITED SIGNIFICANCE FOR LDCS. WESTERN EXPORTERS CERTAINLY WOULD NOT WANT TO ACCEPT TRS IN PAYMENT FOR THEIR GOODS, AND IT IS EQUALLY DIFFICULT TO ENVISION CMEA-MEMBER COUNTRIES ACCEPTING TRS IN PLACE OF HARD CURRENCY FOR THEIR EXPORTS TO THE

WEST. (THIS IS ESPECIALLY EVIDENT IN LIGHT OF THE GROWING AMOUNT OF INTRA-CMEA TRADE BEING SETTLED ON A HARD CURRENCY BASIS AND THEIR NEED FOR HARD CURRENCY EARNINGS.) IT IS CONCEIVABLE HOWEVER, THAT THE IBEC PROPOSAL COULD POSSIBLY LEGITIMIZE SWITCH TRANSACTIONS AND MAKE THIS TYPE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 STATE 015424

OF AN OPERATION EASIER FOR WESTERN FIRMS.

--LDC'S, WHICH DO NOT TRADE WITH CMEA-MEMBER COUNTRIES ON A HARD CURRENCY BASIS, COULD FIND THE IBEC PROPOSAL OF ASSISTANCE IN COVERING UNEXPECTED ANNUAL SHORTFALLS OF EXPORTS TO INDIVIDUAL CMEA-MEMBER COUNTRIES AS WELL AS PROVIDING GREATER POSSIBILITIES FOR SWITCH TRADING. HOWEVER, STRONG PRESSURE WILL STILL EXIST FOR LDC'S AND

CMEA-MEMBER COUNTRIES TO CONTINUE TO BILATERALLY BALANCE THEIR TRADE ON AN ANNUAL BASIS.

--IN VIEW OF PERSISTENT SOVIET EFFORTS TO ENHANCE CEMA'S IMAGE AS AN ON-GOING, EXPANDING, THRIVING INTERNATIONAL ECONOMIC ORGANIZATION IT IS, OF COURSE, CONCEIVABLE THAT A MAJOR EFFORT IS BEING MADE TO PROVIDE SOME VISIBLE PROOF THAT THE TR IS MORE THAN MERELY A BOOKKEEPING MECHANISM FOR BILATERAL SETTLEMENTS IN INTRA-CEMA TRADE.

SUCH AN EFFORT MIGHT ACTUALLY INCLUDE ONE OR MORE "FORCED TRANSACTIONS" IN WHICH A SELECTED WESTERN TRADER WOULD RECEIVE TR'S FROM ONE EE COUNTRY AND THEN USE THEM FOR PURCHASES FROM ANOTHER, ACCOMPANIED BY MAXIMUM POSSIBLE PUBLICITY IN THE WORLD ECONOMIC PRESS. SUCH AN OPERATION WOULD NOT BE TOO FAR REMOVED FROM THE REPORTED SOVIET PRACTICE OF PUSHING A HAND-MADE ZHIGULI THROUGH THE TOGLIATTI ASSEMBLY LINE SOME YEARS AGO TO PROVE THAT PLANNED TARGETS HAD BEEN MET. BUT IT SEEMS RATHER A FAR OUT VENTURE TO PURSUE IN THE FINANCIAL AND TRADING WORLD.

VANCE

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, EAST WEST TRADE, BANKS, RESOLUTIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 24-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE015424
Document Source: CORE
Document Unique ID: 00
Drafter: BEWT/USSR/SBOZEK/ASMITH/MAR
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770026-0148
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770123/aaaaaume.tel
Line Count: 212
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e1112bd2-c288-dd11-92da-001cc4696bcc
Office: ORIGIN COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 MOSCOW 301, 77 MOSCOW 639
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3519114
Secure: OPEN
Status: NATIVE
Subject: TRANSFERABLE RUBLE IN EAST-WEST TRADE
TAGS: EEWT, EFIN, UR, US, IBEC
To: MOSCOW
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e1112bd2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009